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Ksenia Kirkham

AN OVERVIEW: FROM CONTRADICTIONS OF CAPITAL TO THE HISTORY OF CONTRADICTIONS OF THE WELFARE STATE

The development of welfare states should be explained not only as a factor of deindustrialization, social power resources, or economic competitiveness, but also as the consequence of Cold War confrontation, the post-9/11 new world order, and more broadly the long-term geopolitical competition between modern societies. Contradictions inherent to capitalism are the driving forces of recent trends in international political economy. Drawing upon Harvey's perspective, the aim of this article is to bind the contradictions of capital to the contradictions of the welfare state. While this does not entail suggesting these contradictions are of the same nature, it can be argued that the latter derives from the former. This perspective helps to integrate a global dimension into welfare state conceptualisation since the contradictions of capital are not only the product of state interrelations, but also reflect the interaction of market and society at the domestic and supra-national level. The purpose of this article is to apply Harvey's framework on the contradictions of capital to the period in which they have most affected welfare state reform, and to establish a chronology of the contradictions of the welfare state. This will demonstrate how the welfare state has evolved in response to the paradoxes of capital. However, instead of resolving the tensions inherent in capitalism, the welfare state started developing contradictions of its own. A deeper understanding of the contradictions of welfare states is vital in assessing the dynamics of modern social policies, as it enables the policy-makers to better understand why these arrangements do not often meet public expectations.

Key words: Contradictions of capital; welfare state; Harvey; capitalism; 'contender' state

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Introduction

Any analysis of the welfare state should begin with the study of the contradictions inherent to capitalism. These contradictions, discovered by Karl Marx, have been extensively analysed by David Harvey (2014). This perspective helps to integrate a global dimension into how the welfare state is conceptualised because the contradictions of capital are not only the product of state interrelations, but also reflect the interaction of market and society at the domestic and supra-national level. With the development of capital as a transnational force and its concentration in the English-speaking 'heartland', the geopolitical struggle for primacy within this Anglosphere, has transformed to a rivalry between the 'heartland' and the broader West, such as France and Germany, and later to the confrontation between new contenders (China, Russia, Iran, and the like) and the extended 'heartland', which comprises former contenders (Van der Pijl 2006).

The presentation of modern world history as a systemic 'contender-heartland' rivalry lets us define the 'transnational space', which is 'while external to each of the taken states separately, is internal to the heartland as a broader configuration' (Van der Pijl 2006: 13). Placed within this transnational context, we can understand the welfare state as the 'product of the logic of capitalist development', which transcends the explanation, wrongly attributed to Marx, of the origins of the welfare state as the result of class conflict alone (Pradella 2016). International aspects of Marx's theory of value see the world market with its expansionist tendencies for capital accumulation as logically primary to domestic political and socio-economic developments. This logic opens up the opportunity of positioning the welfare state in the global dimension as helping to achieve (a) the reproduction of the labour force with the necessity of increased exploitation in the drive for profit, (b) steady demand in support of capitalist economic cycles, and (c) the appeasement of mass discontent by creating entitlements to social benefits (Alber 1988a: 182).

The article distinguishes five historical stages in the transformation of the welfare state: 'take off', 'expansion', 'acceleration', 'neoliberal restructuring'; and 'contraction'. The contradictions of capital, as outlined by Harvey, will be assigned to the period in which they have most affected welfare state reform; none of the 'foundational' contradictions¹, however, can be fully assigned to a particular period, as they all are inherent to the capitalist system. The author's contribution is to offer a chronology of the contradictions of the welfare state in order to show how the welfare state has evolved in response to the paradoxes of capital, developing contradictions of its own.

¹ Harvey distinguished three types of contradictions of capital: 'foundational', which are inseparable from the essence of capital; 'moving', which are 'dynamic forces' behind capital's evolution; and 'dangerous', which are threatening to the capitalist system and human existence.

The 'take-off' of the welfare state (1880–1914)

In pre-capitalist societies, church and family were the main welfare providers, whilst state social policy was typically 'negative', focusing principally on the maintenance of public order (Alber 1988b). The first 'take-off' phase of the modern welfare state began during the Second Industrial Revolution, when capital found its territorial concentration in the 'Lockean heartland'. This was a turning point in history, driven by the commodification of labour as Fordism emerged as a method of mass production helped by new power-generation technologies and innovations in transport and communications. These shifts in production fundamentally reordered social relations 'under the aegis of capital in large-scale industry' (Cox 1987: 159). Social and demographic changes caused by industrialisation and growing dependence on wage labour created a demand for public spending and resulted in an increased role for the state in the maintenance of the workforce (Myles, Quadagno 2002: 36). The rising concentration of workers and the emergence of the trade union movement, occurred alongside challenging the social reproduction and the rapid exhaustion of the labour force. The gap between material representation and 'the social reality it is seeking to represent' (Harvey 2014: 33) put capital accumulation at further risk, undermining the logic of 'negative' social policy.

The emergence of the embryonic welfare state was a response to the 'moving' contradiction of 'freedom and domination', when the concern of the 'heartland' to protect liberty and private property was a justification for the 'imperial and neo-colonial domination of much of the world'; it was also an adjustment to the 'decline in social reproduction', with the task of creating the conditions required to ensure the regeneration of capital (Harvey 2014: 15–65). The ideological conceptualisation of freedom and domination underwent a radical transformation from the individualistic understanding of poverty towards a more collective interpretation of its causes. At the initial stage, however, state provision of welfare entitlements was limited in scope: the recipients were predominantly working class, excluding white-collar workers and selectively ascribing health, housing and education support (Alber 1988b: 454). The maintenance of collective order remained the most important political target, and for many the welfare state would not offer more than voluntary insurance schemes. Nevertheless, the appearance of the welfare state as such was a challenge to hegemonic liberal interpretations of freedom and poverty. It was in a way a victory for what Karl Polanyi defined as 'good' freedom over 'bad' freedom, i.e. the freedom 'to exploit one's fellows' to 'keep technological inventions from being used for public benefit' (Polanyi 2001: 256).

Welfare state expansion (1918–the 1950s)

After the First World War, the welfare state entered its 'expansive' period (Alber 1988b). Worldwide imperialism and colonialism fostered further commodification of labour power, the privatisation of land, the suppression of

peasants and indigenous populations exacerbated class antagonisms and challenged social security. 'Accumulation by dispossession' (Harvey 2007b: 35), unequal income distribution, the 'dubious state of the foreign balance', excessive corporate exposure to financial pyramids, and poor regulation of financial systems (Galbraith 1954: 194–204), together led to the 1929 Wall Street Crash that resulted in the Great Depression in the 1930s.

The 1929 crisis was a manifestation of one of the 'foundational' contradictions of 'capital as a process', when the accelerated circulation of capital generated tension between 'fixity and motion', as ownership was threatened by greater entitlement to fictitious assets. The breakdown of the 'self-regulating' system of the gold standard, the depreciation of national currencies and huge external payment deficits called for a prompt government reaction – a revolutionary change in attitudes to the significance of the role of the state in maintaining social welfare. Following the New Deal, Keynesianism was laid out as the foundation for crisis management after the WWII, the period that was later labelled 'embedded liberalism', as it tried to reconcile laissez-faire with state interventionism to safeguard domestic social objectives (Ruggie 1982).

After the Second World War, the international dimension predetermined the formation of the welfare state in the West. It was the beginning of the longest boom in the history of the capitalist system, which expanded both in breadth, out of labour reserves, and in depth, building upon previous technological achievements. The United States emerged as the sole hegemonic capitalist power, which helped to restore and unify Western Europe and Japan against the threatening 'contender', the Soviet bloc. The extension of the 'Lockean heartland' was evolving in two dimensions: one took the form of the capital advance across the globe, another was an attempt to spread the social and geo-economic network from the Anglosphere to the rest of the world.

Competition on a global scale, geopolitical rivalry and global mass production run-off unveiled two 'moving' contradictions of capital that spurred the expansion of the Western welfare state. The first one was between 'technology, work and human disposability', which revealed the standoff between value production, on the one hand, and labour-saving technological innovation, on the other, which endangered a growing share of the population with no foreseeable employment opportunities. The second paradox was inherent to the division of labour, which discovered the interplay between the emotional and physical degradation of the workforce, on the one hand, and gains in productivity and profitability on the other (Harvey 2014: 108–147). Moreover, the increasing intensity of labour (Taylorism) and the promotion of mass production (Fordism) not only put the reproductive forces of capitalism at risk, but also enhanced economic divergence between states and regions and led to the appearance of what, according to Harvey's classification, could be called the first 'dangerous' contradiction: 'the revolt of human nature: universal alienation'. Employees could no longer supervise their working conditions: the process of labour and the object

of labour 'became "alien" things' (Choonara 2009: 53). The risk was that the discontented masses might challenge existing capitalist class hierarchy at domestic and international levels. The situation worsened with the rise of the Soviet bloc as a 'contender' to the 'heartland', which for a time represented a vivid alternative to the capitalist deadlock. In such a divided world, capitalism urgently needed a 'class compromise' (Duménil and Lévy, 2004: 186).

The solution was found in the expansion of the welfare state, a tool of the 'interventionist state' to provide the 'post-war settlement between capital and labour' (Gough 1979: 70). With this expansion alongside mass consumption, and with the help of the Marshall Plan, European integration, and international institutions, such as the GATT, the IMF, NATO, the OECD, the enlarged West was 'solidified' 'against the Soviet contender and communism' (Van der Pijl 2006: 66). The consolidation of the welfare state, designed upon the 'functional relationship between economic nationalism and market-correcting planning' (Cox 1987: 168), found its ideological support in the concepts of import substitution and self-sufficiency. The production system and the activity of transnational corporations were primarily host-country-oriented and led to the appearance of the 'welfare-nationalist' state that maintained both national independence and the 'essence of the liberal state as guardian of the market' (Ibid: 165).

However, the consolidation of the Western block after the Second World War was not a smooth process. Esping-Andersen's differentiation between 'liberal', 'conservative' and 'social democratic' welfare-state regimes, rooted in the different historical legacy of regime institutionalisation, class mobilisation and class-political coalition structure, is an important insight that helps to specify crucial differences between welfare states (Esping-Andersen 1990: 29). Despite structural differences and the variety of capitalist typologies, most welfare states undertook de-commodifying social policies and the ratio of social expenditure grew as insurance schemes were extended to white-collar workers and public programmes for housing, health and education expanded. Three 'silent revolutions' of the welfare state began evolving in most Western societies: the adherence to full employment with the absorption of women into the labour force, the vast extension of retirement programmes, and the transformation of the welfare state itself from a system of social provision to a 'virtual employment' generating machine (Ibid: 147–150).

The growing perception of welfare services as a fundamental element of citizenship rights seemed to have resolved, for the time being, the 'dangerous' contradiction of capital that leads to 'universal human alienation'. This turned out to be an illusion, however, as this was treatment more for symptoms rather than the disease itself. In reality, the constraints between 'freedom and domination' and the moral hazards of the division of labour enhanced human alienation and led the welfare state to develop the first fundamental contradiction of its own, between social welfare enhancement and social repression. This contradiction reflects the inconsistency between the freedom of exchange of the capitalist commodities and the coercive powers of the production regime (Marx 1995).

The second conjoined contradiction of the welfare state that emerged in this period was between people's extended control over nature and reduced individual security. This was the outcome of the expansion of the social protection of the forces of production, exhausted in the process of the division of labour and the development of machinery, on one hand, and the increased individual insecurity as the result of the reduced control of workers over production process on the other (Gough 1979: 11).

The acceleration of the welfare state (the 1960s–1975)

The welfare state entered the third stage of its development in the 1960s, labelled the 'acceleration' (Alber 1988b). It was the beginning of 'post-industrialism', marked by revolutions in technology, management, consumption and employment that transformed the global production regime (Esping-Andersen 1990: 189). The contradiction between labour-saving technological innovation and value production 'headed into more and more dangerous territory' (Harvey 2014: 108). It questioned the rationality of the whole capitalist system, when the 'rational decisions of individual capitalists, taken to satisfy their short-term interests' – such as achieving a high rate of profit immediately following a technological innovation – led, in the long run, to 'utterly irrational' consequences for the system as a whole (Choonara 2009: 76). While the amount of living labour, supported by the policy of full employment, remained constant, the 'organic' composition of capital, in the long run, was declining, and, therefore, so were profits.

The competition between the Capitalist and the Communist blocks reached its peak in the years of the Cold War. The arms race was one of the major triggers of economic development on both sides. Possibly, the high levels of US military expenditure played a greater role than Keynesianism in the lengthy West European boom (Bleaney 1985). In the late 1960s, the powerful Keynesian demand-management regulatory mechanisms reached their limits – trade unions and large corporations continued to gain power and protect their interests amid rising prices (Myles, Quadagno 2002: 34). To maintain high social standards, there was an 'immediate' need for greater social spending, which imposed inflationary pressures upon the economy (Cox 1987: 187). Here we find a manifestation of the contradictions between capital and labour, which Harvey classified as the 'primary foundational contradiction of capital' the power of workers exceeded the power of capital and pushed the wage level up and reduced profits (Harvey 2014: 65).

This incongruity resided in the third contradiction of the welfare state: between social spending expansion and the shortage of social funds. Although increased social spending was necessary to accumulate further capital and trigger new economic growth, when expansion reached its marginal level, it became a constraint on the process of capital accumulation, reducing 'the quantity

of surplus value available for re-investment' (Gough 1979: 14, 105), spurring inflation, reducing tax extraction capacity, and therefore, deteriorating available social funds. As a result, 'embedded liberalism' started exhausting itself and faced economic stagflation, unemployment and fiscal crisis.

In the 1970s, the response to the crisis of overaccumulation was different than in the 1930s: the large-scale devaluation of capital was substituted by 'a mix of temporal and spatial fixes' (Harvey 1990: 6). The spatial fix involved cross-border mergers and acquisitions to transpose capital into foreign subsidiaries and incorporate new territories with cheaper inputs into the global capitalist system, thus increasing its profitability (Overbeek et al. 2012: 222). Thus, the Western production regime reacted to inflationary pressures with the growth of FDI, the deployment of global value chains in South-East Asia, facilitated by new competition-based, cost-efficient strategies. The growth of TNCs, however, was not a long-term solution for economic slowdown, as the ongoing process of accumulation continued to drive the rate of profit down.

Welfare state acceleration fed the development of capitalism, intensifying rather than pacifying global rivalry and competition. The internationalisation and concentration of the global production structure brought to the surface the contradiction between monopoly and competition, reiterating that both monopoly power and market competition were 'foundational rather than abbreviational' to the existence of capitalism (Harvey 2014: 40). It also exacerbated the tension between private property and the capitalist state, as the state's coercive regulatory power for the 'free' exercise of individual rights was on the rise, affecting the 'free' operation of capital in the main economic domains (Ibid: 133–145). At the same time, the empowerment of workers in the 1960s escalated the tension between 'production and realisation', as it reduced the capacity to maximise surplus value in production through lower labour costs. Real wages were diminishing, undermining effective demand. The concentration and internationalisation of industrial capital and the monopolisation of trade created economic disproportions that set persistent 'disparities of income and wealth', which in 1971 resulted in the collapse of the Bretton Woods system of fixed exchange rates backed by gold convertibility.

In response to these contradictions, the welfare state faced a dilemma: to renounce its original support for full employment or be drawn into a budget deficit to finance deferred wages (Esping-Andersen 1990: 187). The fourth welfare state contradiction of the time was between real wages and full employment, as it was impossible to maintain both at a high level without pushing the welfare state to subsidise labour costs. Moreover, diminishing 'revenue-extraction capacity' could not compensate for 'rapid growing social-wage commitments', reinforced by rising unemployment (Ibid: 180). Growing unemployment became a 'fetter on the process of capital accumulation and economic growth itself' (Gough 1979: 14). Advanced capitalist states needed to, but could not, expand further. This contradiction of the welfare state could be reformulated as between

labour power and full employment: the stronger labour power becomes, the harder it is to constrain inflationary pressures and prevent the growth of unemployment, as trade-unions constituted an 'obstacle to full employment maintenance during prolonged economic stagnation' (Esping-Andersen 1990: 179).

The fifth welfare state deadlock was between firm efficiency and collective good, which envisioned the tension between the micro-rationality of the enterprise – subsidising and rationalising labour – and stable economic growth – creating a public deficit. On one side, the welfare state as an 'agent of labour-market clearing' provided flexibility for women and seniors through its maternity and pension schemes, and facilitated participation by creating jobs in social services, such as health, education and childcare. On the other, the growing financial burden of the welfare state raised doubts over how to achieve the long-term target of economic stabilisation. Thus, the 'silent revolution' of the welfare state undermined the micro-mechanisms of capitalist markets that it was supposed to protect.

The neoliberal restructuring of the welfare state (1975–2008)

The period of neoliberal 'restructuring' began around 1975, when a rise in social spending was challenged by a decrease in the average annual economic growth rate from 5 % from 1965 to 1973 to 2 % in 1974 (Alber 1988a: 187). The economic slowdown – aggravated by the oil crisis of the 1970s – contributed to a continuous fall in rates of profit and revenues, undermined investment opportunities for technological innovation, which were needed to fuel the 'heartland-contender' and Atlantic-European competition spirals. Western socialist parties offered an alternative solution to the exhausted compromise between capital and labour that 'had grounded capital accumulation so successfully in the post-war period' (Harvey 2007a: 15). However, neoliberalism perceived their political victory over the Left as the continuation of the battle against the Communist threat of the Cold War period.

This socio-economic stalemate was resolved, in the first place, by temporal and spatial fixes; among the biggest ones were the incorporation of China (1978) and the communist states after 1989 into the global capitalist system (Overbeek 2012: 32). Its second resolution was found in the internationalisation of the monetary system: financialisation and the securitisation of assets offered new profit opportunities to capital owners and strengthened their bargaining power vis-a-vis the state and labour (Alber 1988a: 201). The 'integral hegemony' of the US during the years of Bretton Woods was substituted with a 'new strategy of hegemonic coordination', or the 'minimal hegemony' based on the organisation of financial power across the globe that 'systematically favoured the US' (Cafruny, Ryner 2005: 8). Financial domination was reinforced by the imperialistic expansion of the EU and NATO, and by military intervention in the Middle East camouflaged by the 'promotion of democracy, humanitarian aid', or the 'war on terror'.

The neoliberal counter-revolution 'superficially restored' the primacy of the 'heartland' in the global political economy through the 'rejection of popular aspirations for anything other than individual wealth' (Van der Pijl 2006: 20). The ideology of economic 'globalisation' combined rational expectations and utility maximisations with the recognition of the supreme importance of money supply (Crotty 2009: 563). In short, neoliberalisation meant the 'financialisation' of everything, which destroyed Fordism's balance of mass production and mass consumption; the over-accumulation of production was no longer met by an appropriate real demand (Harvey 2007b: 33). Late developments in securitisation and the shift from traditional 'originate and hold' to 'originate and distribute' banking business models led to what the IMF termed an 'arm's length financial system' (Mizen 2008: 550). Differences between the 'real' and the financial reduced; surplus capital invested in production intensified competition, pushing down prices, which, along with falling profits, created a 'peculiar combination' favourable for speculation (Choonara 2009: 2).

Financialisation internalised some contradictions of capital in the credit system and permitted capitalists to invest in new (biological and informational) technological innovations. 'Post-Fordist' structural fragmentation of production – decomposition of global value chains, modularity, outsourcing and the digital revolution (the ability to codify design information in digital form) – rearranged the geography of world manufacturing, with each component functioning according to its competitive advantage. Such factors as the 'deindustrialisation of formerly unionised core industrial regions', the consolidation of corporate power in the service sector and even the media – were all directed towards the formation of the neoliberal consensus as 'common sense' (Harvey 2007a: 53).

By the 1980s demographic imbalances, ageing populations and the mobilisation of women created a 'demand overload' (Alber 1988a). Even though most Western countries introduced a series of 'legislative curtailments' in social programmes, social expenditures still grew faster than GDP. In other words, the period of restructuring did not entail an 'unrestrained further expansion nor a dismantling' of welfare state programmes (Alber 1988a: 200), but increased the problem of the funding of social programmes.

In the 1990s-2000s at the centre of the welfare state reforms were the privatisation of public services, such as education, healthcare, water and power supplies, and the re-commodification of the labour force (McDonald 2014: 119). The primacy of individual responsibility as the solution to issues of inequality was revived, with social policies investing in individual skills and education rather than redistributing wealth directly (Schwartz, Seabrooke 2008). The rise of individual investment in housing markets and financial products created a form of residential capitalism, overlaid with unsecured personal debt. The traditional Keynesian welfare state was demolished by the rise of subprime mortgage markets. Social redistribution was exchanged for the

'asset-bubble-driven privatised' welfare state of the Third Way, which undermined the wage–consumption interplay (Crouch 2009).

The neoliberal developments that preceded the crisis exacerbated the tension between 'use value and exchange value', when the exchange value was no longer set by the actual costs of production, completely disentangling the social value of labour from its representation in monetary terms. Privatisation and the re-commodification of public assets aggravated the standoff between 'monopolisation and competition'. The creation of an unemployed pool of 'low-wage surplus labour' threatened social reproduction. The situation was aggravated by two contradictions of capital that reached a global spread: that of private appropriation as opposed to common wealth; and that of uneven geographical development and the production of space. The response of the welfare state to these contradictions of capital was the financialisation of social policy.

In the period of credit expansion, the creation of an underemployed pool of cheap labour provoked counter-inflationary policies that deepened unemployment and increased financial pressures on social services. The welfare state developed the sixth contradiction between a 'pool of cheap labour power and financial leverage of wealth funds'; the welfare state could no longer maintain the unemployed without increasing financial leverage. For a time, financialisation resolved this deadlock, permitting welfare states to continue business-cycle management in liberal regimes, constraining unemployment in socio-democratic regimes and enacting moderate austerity that 'promoted dis-employment of older workers' in conservative regimes (Esping-Andersen 1990: 180). In other words, it enabled the welfare state to 'absorb costs for which it was not financially equipped' (Ibid). The social impact of financialisation was the transfer of power from traditional capitalist classes to key global financial centres, nourished by global disparities and uneven geographical development, which eventually led to the global financial crisis.

The welfare state after the financial crisis of 2008

The financial crisis of 2008 'was not an outcome of the stagnation of the purchasing power of wage-earners', but rather a result of asymmetric income distribution and the long-term problems with over-accumulation and profitability (Duménil, Lévy 2011: 5–13). Despite reciprocal recognition of regulatory flaws and the imperfections of global governance (the deregulation of the financial sector), the causes of the crisis were much deeper: global imbalances, rising inequality, genuine uncertainty and technological progress. Once again capital entered the 'dangerous' zone: the first contradiction was the 'endless compound growth' when capital's ability to rely on demographic growth was diminishing (Harvey 2014: 242). The next one was what Harvey calls 'capital's relation to nature', when capitalism damages its most critical inputs, such as labour power and the environmental basis. These developments awaited a reaction from the

welfare state. For a time, it felt as if the crisis was postponing the effects of the 'dangerous' contradictions and had reversed neoliberal policies, with growing public discontent towards privatised welfare services that failed to fulfil their societal functions. In the search for alternatives to privatisation, various non-state actors, such as NGOs, community groups, labour unions and faith-based establishments, demanded a greater role in public services and welfare provision (McDonald 2014: 120). As a result, a complex network of public provision appeared, in partnership with non-state partners, such as public–private partnerships (PPPs), NGOs, not-for-profit community agencies and profit-oriented public–public partnerships (PUPs).

The financial crisis raised questions about whether social democracy could be revived (Ryner 2010: 554). The state–private form of social provision, however, symbolised another victory for the neoliberal doctrine over Keynesianism in the instalment of the welfare state. In 2010, the seemingly formidable effectiveness of European welfare states in mitigating the bitter effects of the crisis was undermined by 'structural adjustment' to austerity measures in public social policies (Hermann 2014). The need for austerity was dictated by growing fiscal deficits, augmented by the rescue programmes of finance capital in the aftermath of the crisis. The welfare state 'became a major target of budget consolidation' (Ibid: 201). Since then, the increasing concern among the population has been about 'corporatised' state-owned and state-operated social services, which have been 'increasingly run on commercial principles that mimic the private sector' (Ibid: 121).

The Global Recession was the result of the 'unleashed' hegemony of the US, with its 'impressive capacity to convert debt into sustainable capital accumulation and growth', privileges in utilising seigniorage, capitalised security markets and the residual welfare state, to which European social democracy offered few alternatives (Ryner 2010: 559). The EU relaunched integration, labelled 'embedded neoliberalism' (Joseph 2013), aimed at adjusting neomercantilism and socio-democratic logics to the primacy of the neoliberal objective. The process was stuck in the asymmetry of European governance: the 'Lisbon strategy' of the EU represented the interests of powerful transnational political forces that support the tactics of re-commodification, therefore failing to balance between social cohesion and European competitiveness (Van Apeldoorn, Hagerb 2010: 209). The US remained at the top of the global hierarchy, trying to protect the position of US-based capital, which needed that protection more than ever. Economic growth in all industrial countries within the heartland-contender division was stagnating or recovering too slowly to create employment. The sustainability of new 'contender' states, such as Russia and Iran, was increasingly challenged by the inherent instability of the international financial system and by limited access to global capital markets as the result of economic sanctions. The political fragility within the Western capitalist cluster was exacerbated by the crisis in the Eurozone. Despite internal competition in the 'heartland', and regardless of the economic turmoil in

Europe, the adherence of Western capitalist states to neoliberal policies made them resistant to the pressures for welfare state structural reforms. As a result, the welfare state's reaction to the underlying contradictions of capital was limited to a cosmetic 'social investment model', based on 'employment activation' strategies and 'flexicurity' – a model for enhancing both flexibility and security in the labour market (Diamond, Lodge 2014: 37).

At present, Western welfare states demonstrate 'resistance to change' in terms of reconciling 'embedded neoliberalism' with social risks, such as negative demography, structural changes in labour markets, family instability and gender inequality (Ibid: 37). 'Austerity', which entails the cutting of welfare spending, remains one of the most important instruments of class power restoration by setting the 'conditions of profitable accumulation' and labour market deregulation (Pradella 2016). The promotion of fiscal discipline holds priority over social protection. Cuts in social spending, especially in healthcare and education, are particularly severe in countries hit hardest by the crisis, such as Greece, Spain, and Portugal. Poverty, social exclusion and rising inequality are the results of welfare state retrenchment. Furthermore, the neoliberal response to the crisis has reinforced the 'wrong way' of redistribution, with banks becoming not only too big to fail but also 'too politically powerful to be constrained' (Stiglitz 2010: 38–40). Harvey's contradiction of income and wealth disparities has revealed the seventh inconsistency of the welfare state: between employment and income security. As such, bitter material deprivation among the toiling population endangers the entire system of employment as a security net against poverty and questions the ability of the European Social Model to serve as an income safety cushion after the crisis (Hermann 2014). Moreover, the impoverishment of the employed challenge crucial inverse functions of the welfare state: the reproduction of labour power and the maintenance of the non-working population (the eighth contradiction).

Conclusion

The theoretical value of the contradictions of capital, discovered by Karl Marx, has become 'more relevant today than in the mid-to-late nineteenth century' (Jessop 2012: 92). The demand for the advancement of historical materialist settings in theorising the welfare state is dictated by the latest developments in modern capitalist societies, which seem to be encountering political and the transnational over the national in the theoretical visualisation of the history of humankind. This makes Marx's legacy alive to this day, reconstructed and updated by Gramsci, developed and extended by Van de Pijl, further augmented and generalised by Harvey. It has been suggested that research on the welfare state should begin with the analysis of the contradictions inherent to capitalism by placing each studied society in a geopolitical context. In support of this argument, this article has pioneered in connecting the contradictions of capital to the contradictions of the welfare state, focusing on the five main periods of welfare

state evolution in western capitalist societies. With the aid of this correlation, what is demonstrated is how and why Keynesian demand-management, universalism and de-commodification, which are aimed at social welfare enhancement, in fact result in social repression. This repressive mechanism of social control is reinforced by the fact that people's ability to balance the contradictory nature of capitalism is illusory and actually increases personal insecurity. The acceleration of welfare state programs that followed, with its further de-commodification and the empowerment of trade unions, led to a growing political, economic and social dependence on the welfare state, to the shortage of social funds, to the decline of real wages, to the rise of unemployment and, ultimately, to the destruction of the 'class compromise'. The demolition of the Keynesian welfare state and the privatisation and financialisation of private services has succeeded in deferring rather than resolving the contradictions of the welfare state. Moreover, new 'dangerous' contradictions have emerged as a result of neoliberal policies threatening labour power reproduction and income security.

In summary, by underlining the contradictions of capitalism it is possible to better understand the dynamics of modern social policies, and by discovering the contradictions of the welfare state – to better understand why these policies do not often meet public expectations. The study thus suggests more generally that the welfare state should be expanded further by adding a global dimension to its conceptualisation. This will not only contribute to the comparative studies of European welfare regimes but will also open up the possibility of developing a Comparative Welfare Studies of non-western capitalist states. Future research should widen the analytic coverage beyond the cases of western welfare state regimes considered in this article, to the modern 'contender' states, such as China or Russia. In this regard, further work should examine the possibility of an inclusion of the international component in the concept of the welfare state, along with the consideration of the state's position in global systems as a parameter of the institutional structure. Advanced conceptualisation of the welfare state regime within a transnational framework will contribute to multidisciplinary studies of western and non-western societies and will make it possible to transgress the split between welfare state comparative studies and international political economy.

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